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CLOSE BROTHERS GROUP plc
The specialist merchant banking group
announces
results for the year to 31st July, 2004

HIGHLIGHTS

	2004	2003
* Profit before taxation and goodwill amortisation	£118.9m	£85.3m
* Earnings per share before goodwill amortisation	57.3p	41.0p
* Profit before taxation	£101.3m	£77.8m
* Earnings per share	45.1p	35.7p
* Dividends per share	27.0p	26.0p
* Shareholders' funds	£509m	£482m
* Total assets	£3.9bn	£3.6bn

* **Overview** – Results for the year showed a substantial improvement over last year.

* **Banking** – Steady growth with profits rising 11 per cent. on the back of 9 per cent. loan book growth.

* **Investment Banking** – Rebounded significantly with an overall increase in profits of more than 75 per cent.

Asset Management – Profits more than double last year. FUM up 50 per cent. to £5.5 billion.

Corporate Finance – Another year of significant improvement. Profits almost doubled to £9.8 million.

Market-Making – Greatly improved profits of £37.9 million. Year of two distinct parts with last four months seeing lower levels of activity.

Colin Keogh, Chief Executive, said:

“In the year ahead we expect a gradual slow down in the growth of the UK economy as the recent interest rate rises take effect. This outlook is being reflected in uncertain stock market performance and retail investor activity, and faltering demand for consumer credit.

In our banking activity all our specialist lending businesses have plans to grow their loan books. In the near term, however, such growth will be tempered by difficult market conditions in some areas and increasing costs in others resulting from regulatory change particularly in our asset finance division.

In our investment banking activity, market-making has got off to a slow start and would need a noticeable fillip in stock market activity for it to match the trading level of 2004. Our corporate finance business has an encouraging pipeline and our asset management businesses have the foundations and momentum to make further progress.

Looking forward, in the short term our inclination is towards caution. However, our confidence in the long term potential of our well diversified and fundamentally strong businesses is undimmed.”

Enquiries to:

Colin Keogh

Close Brothers Group plc

020 7426 4000

Rupert Young

Brunswick Group Limited

020 7404 5959

Webcast video interview with Colin Keogh, Chief Executive, Close Brothers Group plc at www.closebrothers.co.uk
or www.cantos.com

CLOSE BROTHERS GROUP plc
PRELIMINARY ANNOUNCEMENT OF AUDITED GROUP RESULTS
AND CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31ST JULY, 2004

The following is the full text of the preliminary announcement of results for the financial year ended 31st July, 2004. The financial information in relation to 31st July, 2004 has been extracted from the statutory accounts of the company, which have yet to be adopted by shareholders at general meeting and have yet to be filed with the Registrar of Companies.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the year ended 31st July, 2004			Year ended
	Ordinary activities before goodwill amortisation	Goodwill amortisation	Total ordinary activities	31st July, 2003 (Restated)
	£'000	£'000	£'000	£'000
Interest receivable	240,348	-	240,348	219,948
Interest payable	106,757	-	106,757	93,464
Net interest income	133,591	-	133,591	126,484
Fees and commissions receivable	194,453	-	194,453	152,536
Fees and commissions payable	(34,072)	-	(34,072)	(25,505)
Net dealing income - market-making	99,983	-	99,983	66,711
Other operating income	7,227	-	7,227	3,113
Other income	267,591	-	267,591	196,855
Operating income	401,182	-	401,182	323,339
Administrative expenses	248,622	-	248,622	207,639
Depreciation	10,833	-	10,833	8,471
Provisions for bad and doubtful debts	22,781	-	22,781	21,962
Amortisation of goodwill	-	17,603	17,603	7,469
Total operating expenses	282,236	17,603	299,839	245,541
Operating profit on ordinary activities before taxation	118,946	(17,603)	101,343	77,798
Taxation on profit on ordinary activities	33,925	-	33,925	25,332
Profit on ordinary activities after taxation	85,021	(17,603)	67,418	52,466
Minority interests - equity	2,209	-	2,209	1,514
Profit attributable to shareholders	82,812	(17,603)	65,209	50,952
Dividends:				
Interim dividend 9.0p per share (2003 - 9.0p)			12,875	12,839
Proposed final dividend 18.0p per share (2003 - 17.0p)			25,604	24,482
Total dividends 27.0p per share (2003 - 26.0p)			38,479	37,321
Retained profit for the year			26,730	13,631
Earnings per share before amortisation of goodwill			57.3p	41.0p
Earnings per share on profit attributable to shareholders			45.1p	35.7p
Diluted earnings per share			45.0p	35.5p

All income and profits are in respect of continuing operations.

CONSOLIDATED BALANCE SHEET

At 31st July, 2004

	2004 £'000	2003 £'000 (Restated)
Assets		
Cash and balances at central banks	844	878
Loans and advances to banks	733,029	746,586
Loans and advances to customers	1,757,074	1,615,614
Non-recourse borrowings	(250,000)	(175,000)
	1,507,074	1,440,614
Debt securities – long positions	54,521	60,744
Debt securities – other	777,509	543,826
Settlement accounts	366,213	391,684
Equity shares – long positions	34,714	24,385
Equity shares – investments	26,770	25,763
Intangible fixed assets – goodwill	98,628	106,003
Tangible fixed assets	32,855	23,853
Share of gross assets of joint ventures	21,855	20,636
Share of gross liabilities of joint ventures	(21,358)	(20,182)
	497	454
Other assets	197,824	164,215
Deferred taxation	14,377	12,443
Prepayments and accrued income	35,589	27,213
Total assets	3,880,444	3,568,661
Liabilities		
Deposits by banks	79,188	107,872
Customer accounts	1,681,152	1,401,482
Bank loans and overdrafts	621,360	617,559
Debt securities – loan notes issued	100,000	100,000
Debt securities – short positions	52,842	54,113
Settlement accounts	301,159	317,857
Equity shares – short positions	14,406	19,371
Other liabilities	313,254	274,060
Accruals and deferred income	106,208	91,487
Subordinated loan capital	96,937	96,937
Minority interests – equity	4,674	6,124
	3,371,180	3,086,862
Shareholders' funds		
Called up share capital	36,066	36,003
Share premium account	250,430	249,527
ESOP trust reserve	(3,962)	(4,734)
Profit and loss account	226,730	201,003
Total equity shareholders' funds	509,264	481,799
Total liabilities and shareholders' funds	3,880,444	3,568,661

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st July, 2004	2004	2003
	£'000	£'000
Profit attributable to shareholders	65,209	(Restated) 50,952
Exchange adjustment	(1,554)	(299)
	63,655	50,653

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st July, 2004	2004	2003
	£'000	£'000
Net cash inflow from operating activities	113,868	51,275
Returns on investments and servicing of finance:		
Interest paid on subordinated loan capital	(7,834)	(7,825)
Dividends paid to minority interests	(1,419)	(280)
	(9,253)	(8,105)
Taxation paid	(32,184)	(21,080)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(18,613)	(8,318)
Sale of tangible fixed assets	630	756
Purchase of equity shares held for investment	(2,839)	(7,921)
Sale of equity shares held for investment	5,677	7,090
	(15,145)	(8,393)
Acquisitions and disposals:		
Minority interests acquired for cash	(2,950)	(1,734)
Purchase of subsidiaries	(11,772)	(3,547)
	(14,722)	(5,281)
Equity dividends paid	(37,357)	(37,053)
Net cash inflow/(outflow) before financing	5,207	(28,637)
Financing:		
Issue of ordinary share capital including premium	966	1,154
Increase/(decrease) in cash	6,173	(27,483)

In the directors' view, cash is an integral part of the operating activities of the group, since it is a bank's stock in trade. Nevertheless, as required by Financial Reporting Standard No. 1 (Revised), cash is not treated as cash flow from operating activities but is required to be shown separately in accordance with the format above.

THE NOTES

1. Consolidated cash flow statement	2004	2003
	£'000	£'000
(a) Reconciliation of operating profit on ordinary activities before taxation to net cash inflow from operating activities		
Operating profit on ordinary activities before taxation	101,343	77,798
(Increase)/decrease in:		
Interest receivable and prepaid expenses	(8,376)	(4,257)
Net settlement accounts	8,773	(29,714)
Net equity shares held for trading	(15,294)	3,368
Net debt securities held for trading	4,952	5,490
Increase in interest payable and accrued expenses	9,559	14,382
Depreciation and amortisation	28,436	15,940
Net cash inflow from trading activities	129,393	83,007
(Increase)/decrease in:		
Debt securities held for liquidity	(233,683)	168,555
Loans and advances to customers	(141,460)	(204,616)
Loans and advances to banks not repayable on demand	19,764	(331,101)
Other assets less other liabilities	10,067	19,872
Increase/(decrease) in:		
Deposits by banks	(28,684)	24,713
Customer accounts	279,670	178,941
Bank loans and overdrafts	3,801	111,904
Non-recourse borrowings	75,000	-
Net cash inflow from operating activities	113,868	51,275
(b) Analysis of net cash outflow in respect of purchase of subsidiaries		
Cash consideration in respect of current year purchases	(9,563)	-
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	(8,808)	(3,547)
Net movement in cash balances	6,599	-
	(11,772)	(3,547)
(c) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	382,467	381,313
Shares issued for cash	966	1,154
Closing balance	383,433	382,467
(d) Analysis of cash balances	Movement in the year	
	£'000	
Cash and balances at central banks	(34)	878
Loans and advances to banks repayable on demand	6,207	130,328
	6,173	131,206

THE NOTES

2. Basis of preparation

The financial information included in this announcement does not constitute the company's statutory accounts for the years ended 31st July, 2004, but is derived from those accounts on which the auditors have yet to sign their report. It has been prepared on the basis of the accounting policies set out in the 2003 statutory accounts, except with regard to Close Brothers Group plc equity shares held by the employee benefit trust. Previously the policy was to hold these at cost with realised surpluses and deficits taken to the profit and loss account. In accordance with UITF Abstract 38 on Accounting for ESOP Trusts, equity shares held by the employee benefit trust are now deducted in arriving at shareholders' funds. Realised surpluses and deficits are not taken to the profit and loss account. Prior year restatements are described in note 4 below.

The figures shown for the year ended 31st July, 2003 represent an abridged version of the statutory accounts of Close Brothers Group plc for that year, which have been filed with the Registrar of Companies and on which the auditors have given an unqualified report.

3. Earnings per share

Earnings per share before amortisation of goodwill is based on profit of £82,812,000 (2003 - £58,421,000), being profit after taxation and minority interests but before goodwill amortisation, and on 144,459,000 (2003 - 142,613,000) ordinary shares, being the weighted average number of shares in issue and contingently issuable during the year excluding those held by the employee benefit trust. This earnings per share has been disclosed because, in the opinion of the directors, it reflects operational performance.

Earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £65,209,000 (2003 - £50,952,000) and on the same number of shares as above.

Diluted earnings per share is based on this same profit after taxation and minority interests, but on 145,047,000 (2003 - 143,336,000) ordinary shares, being the weighted average number of shares in issue disclosed above, plus the weighed dilutive potential on ordinary shares of exercisable employee share options in issue during the year.

4. Prior year restatement

As a result of the adoption of UITF Abstract 38 on Accounting for ESOP Trusts, the profit and loss account, balance sheet and statement of total recognised gains and losses prior year comparatives have been restated.

Profit and loss account and statement of total recognised gains and losses – the profit attributable to shareholders for the year ended 31st July, 2003 has decreased by £124,000.

Balance sheet – total equity shareholders' funds as at 31st July, 2003 have decreased by £4,734,000.

5. Dividend

The final ordinary dividend of 18.0p per share is proposed to be paid on 2nd November, 2004 to holders of ordinary shares on the register at the close of business on 8th October, 2004.

CHAIRMAN'S STATEMENT

RESULTS

The operating profit on ordinary activities before taxation and goodwill amortisation was £118.9 million, compared to £85.3 million last year, an increase of 39 per cent., producing earnings per share of 57.3p compared to 41.0p, an increase of 40 per cent.

After deducting a charge for goodwill amortisation of £17.6 million (2003 - £7.5 million), the operating profit on ordinary activities before taxation was £101.3 million (2003 - £77.8 million) and earnings per share were 45.1p (2003 - 35.7p).

The board recommends a final dividend of 18p per share which, together with the interim dividend, makes a total dividend for the year of 27p per share (2003 - 26p) with pre-goodwill cover of 2.1 times (2003 - 1.6 times). This resumes our dividend growth whilst continuing to rebuild dividend cover.

OVERVIEW

The results for the year ended 31st July, 2004 showed a marked improvement over last year. In particular, the results from each of the three divisions of our investment bank rebounded significantly with an overall increase of more than 75 per cent. Our wide range of banking activities continued their steady growth pattern with profits rising 11 per cent.

The overall profit before tax and goodwill amortisation represented 30 per cent. of group income (2003 - 26 per cent.) and a return of 25 per cent. on opening shareholders' funds (2003 - 18 per cent.), with an expenses/income ratio of 62.0 per cent. (2003 - 64.2 per cent.).

Our acquisition activity in the past year has been modest and we have resisted any temptation to overbid for assets. However we took some useful steps to augment existing activities with the acquisition of Nelson Money Managers, now being integrated with Close Wealth Management, and the start-up of a debt factoring business in Germany.

Our long term strategy to build a significant asset management business is gaining momentum. The year saw a step change in profit levels and funds under management grew some 50 per cent. to £5.5 billion.

Our market-making business produced a performance which was strong in the first half but somewhat lower in the second half.

The pick-up in our corporate finance division referred to in our last two trading statements has continued, and we have got off to a good start in Italy with our new partner.

On the banking side, our property lending and insurance premium financing businesses performed strongly and there was some improvement in our credit management activities. However the market in new print machinery remained weak, masking an otherwise good performance from our asset finance division.

The diversity of our income streams continued to serve us well and the table below illustrates the overall balance of our businesses:

	Analysis of Operating Profit (before central costs)	
	2003 %	2004 %
<i>Asset Management</i>	8	13
<i>Corporate Finance</i>	5	7
<i>Market-Making</i>	<u>24</u>	<u>28</u>
Investment Banking	37	48
Banking	<u>63</u>	<u>52</u>
	<u>100</u>	<u>100</u>

TRADING

Investment Banking

Asset Management

Pre-tax profit of £17.4 million is more than double that of last year. This excellent result stemmed from a continuing increase in our funds under management, up from £3.7 billion to £5.5 billion. Of the £1.8 billion increase, approximately £0.8 billion came from net new money, an encouraging performance in competitive markets, £0.9 billion arose from the acquisition of Nelson and £0.1 billion from market movement.

Our private client business continued to expand and now manages funds of £2.2 billion. Our offshore British Isles businesses have been brought together under one structure and a younger management team. New products have been developed and services to our investment management clients, depositors and trust clients have been more carefully targeted. Onshore, our most significant move has been the Nelson acquisition. The integration with Close Wealth Management has started and in early 2005 all of the 20,000 or so clients will be on one system. Our London based private client fund management business is also progressing well.

CHAIRMAN'S STATEMENT

Our fund management business in unquoted investments prospered. Our seventh institutional private equity fund raised £360 million and we achieved some rewarding disposals of investments made earlier. Our tax sheltered and property businesses continued to grow strongly.

In our specialist and institutional business we successfully launched the £70 million Close Man Hedge Fund. Other existing funds also continued to attract new money.

Corporate Finance

We enjoyed another year of significant improvement with profits almost doubling to £9.8 million. In the UK mid-market we handled a growing number of M&A transactions in a variety of business sectors. Our restructuring unit continued to prosper as did our debt advisory service.

In Europe our fortunes were mixed with France in particular going through a difficult phase. However, our businesses in Germany and Spain recovered and our new association in Italy got off to a good start.

We commence the new year with a healthy pipeline similar to last year.

Market-Making

WINS greatly improved its profit, from £23.5 million to £37.9 million, albeit in a year of two distinct parts. The first eight months saw the continuation of the buoyant trading which commenced in spring 2003. Contrastingly, the last four months saw quieter conditions, with lower levels of private client activity and market indices faltering.

We continued to expand our product offering and our electronic connectivity, and again improved our market share in the UK principal to agent retail market.

The recent dull summer months and increasing economic uncertainty justify a somewhat cautious stance.

Banking

Once again our banking activity showed good organic growth. Profits increased by 11 per cent. to £69.7 million and the loan book, including securitised receivables, grew by 9 per cent. The bad debt charge at 1.4 per cent. of average loans was again contained with no deterioration in credit quality.

Insurance premium financing had another good year, benefiting from premium increases in the previous financial year. As predicted, the market for commercial insurance premiums in 2004 has softened significantly.

Motor finance had another record year but in the next few months will have to grapple with new regulatory issues, particularly in the area of insurance and the Consumer Credit Act. These issues will also affect some of our commercial asset lending businesses, as will mortgage regulation for Mortgage Intelligence.

Our commercial asset finance businesses had a good year, with the exception of the new print sector, which remained difficult and showed no sign of recovery. Additionally, successive defence cuts and a more competitive insurance market have caused us to make a prudent write-down in the goodwill of our military financial services business.

Our treasury, credit management and property lending businesses all did well, the latter in a market where price froth is beginning to subside.

DIRECTORS AND MANAGEMENT

At the end of our Annual General Meeting we shall bid farewell to two independent non-executive directors who have served us long and well. Alastair Farley joined our board in 1993. As a City solicitor of many years' standing his advice and experience have been valuable to us, as has his chairmanship of our audit committees for the past four years. Peter Wilmot-Sitwell has been a director since 1995, following a distinguished career as senior partner of stockbrokers Rowe & Pitman and chairman of S.G.Warburg Securities. We shall miss their lively interest and shrewd counsel.

In their places we appointed on 29th July, 2004 two new independent non-executive directors. Douglas Paterson, 60, recently retired from the accountancy firm PricewaterhouseCoopers, where he was a senior partner in the banking and capital markets division. He has agreed to assume the chairmanship of our audit committees on the retirement of Alastair Farley. James Williams, 54, recently retired after a long career as a director of Baring Asset Management where he was head of investment strategy with considerable involvement in overseas markets. He will join our audit committees.

CHAIRMAN'S STATEMENT

Leslie Bland, one of our most senior and successful executives, has retired after 20 years with the group, during which he virtually started and energetically built our receivables financing business, a consistent contributor to our banking profits. We are pleased that he will continue to help us on a part-time basis in the UK and with our new debt factoring business in Germany.

OUTLOOK

In the year ahead we expect a gradual slow down in the growth of the UK economy as the recent interest rate rises take effect. This outlook is being reflected in uncertain stock market performance and retail investor activity, and faltering demand for consumer credit.

In our banking activity all our specialist lending businesses have plans to grow their loan books. In the near term, however, such growth will be tempered by difficult market conditions in some areas and increasing costs in others resulting from regulatory change particularly in our asset finance division.

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Looking forward, in the short term our inclination is towards caution. However, our confidence in the long term potential of our well diversified and fundamentally strong businesses is undimmed.

Sir David Scholey
Chairman